

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1555-02  
Bill No.: HB 621  
Subject: Tax Credits; Business and Commerce  
Type: Original  
Date: March 5, 2013

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Bill Summary: This proposal authorizes three new tax credits relating to port facilities.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	(\$60,868 to \$5,010,868)	(\$66,246 to \$5,016,246)	(\$66,965 to \$5,016,965)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$60,868 to \$5,010,868)</b>	<b>(\$66,246 to \$5,016,246)</b>	<b>(\$66,965 to \$5,016,965)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Note:** The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 7 pages.

<b>ESTIMATED NET EFFECT ON FEDERAL FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<b>ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
General Revenue	1 FTE	1 FTE	1 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>	<b>1 FTE</b>

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

<b>ESTIMATED NET EFFECT ON LOCAL FUNDS</b>			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

Officials at the **Office of Administration - Budget and Planning** assume this proposal creates three new tax credit programs to develop or expand port facilities. This proposal may encourage other economic activity but BAP cannot estimate the induced revenues. This proposal may also impact the calculations for Article X, Section 18(e).

The first program creates a credit for a manufacturer or distributor that increases its port cargo volume by a minimum of 5%. This proposal is capped at \$3.2 million annually, therefore it is assumed General and Total State Revenues will be reduced by this amount.

The second program creates a tax credit for international trade facilities based on their port cargo volume. This program is capped at \$1.5 million annually, therefore it is assumed General and Total State Revenues will be reduced by this amount.

The third program creates a tax credit for job creation at an international trade facility. The credit shall be \$3,500 per qualified full-time employee or 2% of qualified capital investment. This credit is capped at \$0.25 million annually, therefore it is assumed General and Total State Revenues will be reduced by this amount.

Officials at the **Department of Economic Development (DED)** assume this part of this proposal in section 135.1662 creates a state tax credit for taxpayers engaged in manufacturing of goods or the distribution of manufactured goods that uses port facilities in Missouri and increases the volume at Missouri facilities by a minimum of five percent. Exceptions are allowed as determined by DED. DED is responsible for issuing guidelines and for the computation of any carryover of the tax credits. DED must also establish criteria for international trade facilities and anticipates the need for one additional FTE. This FTE would be an Economic Development Incentive Specialist III (\$41,016) and would be responsible for reviewing applications and determining whether applicants meet the criteria for program participation.

Sections 135.1664 and 135.1666 create a tax credit for international trade facilities and companies dealing in international trade respectively. Section 135.1664 which allows for a tax credit on freight moved by barge or rail of \$25 for every twenty-foot equivalent unit (TEU) up to sixteen tons of non-containerized cargo. The program is capped at \$1.5 million for each fiscal year until the program sunsets in June of 2019. Section 135.1666 allows a tax credit to taxpayers whom increase qualified trade activities in an amount of \$3,500 per new employee or 2% of the capital investment made. The credits may be transferred, sold and they have a 10-year carry forward provision. The act requires DED to establish procedure to determine whether a tax credit should be granted and whether the applicant qualifies under the guidelines.

ASSUMPTION (continued)

DED assumes a negative fiscal impact in excess of \$100,000; however, this negative impact would be offset by an unknown positive economic benefit as a result of the increase in economic activity as a result of the program.

Officials at the **Department of Revenue (DOR)** assume this proposal would need form changes and computer programming changes to various tax systems. These changes are estimated to cost \$36,355 for 1,344 FTE hours.

**DOR** assumes the Personal Tax Division will need one Revenue Processing Technician I (\$25,884) per 6,000 tax credits claimed and one Revenue Processing Technician I (\$25,884) per 2,400 pieces of correspondence. The Corporate Tax Division will need one Revenue Processing Technician I (\$25,884) per 6,000 tax credits redemptions.

**Oversight** assumes DOR is provided with core funding to handle a certain amount of computer programming activity each year. Oversight assumes DOR could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, DOR could request funding through the appropriation process.

**Oversight** assumes DOR's Personal and Corporate Tax Divisions could absorb the responsibilities of these tax credits with existing resources. Should DOR experience the number of additional tax credit redemptions to justify another FTE, they could seek that FTE through the appropriation process.

Bill as a Whole

Officials at the **Joint Committee on Administrative Rules** assume no fiscal impact from this proposal.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state an unknown reduction of premium tax revenues as a result of the creation of the international trade facility tax credit is possible. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts throughout the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple

ASSUMPTION (continued)

bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

Officials from the **Office of the Secretary of State (SOS)** state many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the SOS for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, the SOS also recognizes that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what the office can sustain with the core budget. Therefore, the SOS reserves the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes the SOS could absorb the costs of printing and distributing regulations related to this proposal. If multiple bills pass which require the printing and distribution of regulations at substantial costs, the SOS could request funding through the appropriation process.

Officials at the Missouri Department of Transportation did not respond to **Oversight's** request for fiscal impact.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
<b>GENERAL REVENUE</b>			
<u>Cost - Department of Economic Development</u>			
Personal Services	(\$34,180)	(\$41,426)	(\$41,840)
Fringe Benefits	(\$17,345)	(\$21,022)	(\$21,232)
Equipment and Expenses	(\$9,343)	(\$3,798)	(\$3,893)
<u>Total Cost - DED</u>	(\$60,868)	(\$66,246)	(\$66,965)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Revenue Reduction - DED - tax credit for increased port cargo volume § 135.1662</u>	\$0 to (\$3,200,000)	\$0 to (\$3,200,000)	\$0 to (\$3,200,000)
<u>Revenue Reduction - DED - tax credit for international trade facility § 135.1664</u>	\$0 to (\$1,500,000)	\$0 to (\$1,500,000)	\$0 to (\$1,500,000)
<u>Revenue Reduction - DED - tax credit for capital investment § 135.1666</u>	<u>\$0 to (\$250,000)</u>	<u>\$0 to (\$250,000)</u>	<u>\$0 to (\$250,000)</u>
<b>ESTIMATED NET CHANGE ON GENERAL REVENUE</b>	<b>(\$60,868 to <u>\$5,010,868</u>)</b>	<b>(\$66,246 to <u>\$5,016,246</u>)</b>	<b>(\$66,965 to <u>\$5,016,965</u>)</b>
Estimated Net FTE Change on General Revenue	1 FTE	1 FTE	1 FTE

**Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.**

<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

Small businesses that qualify for the credit could be positively affected.

### FISCAL DESCRIPTION

This legislation authorizes three new tax credits relating to port facilities.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

### SOURCES OF INFORMATION

Department of Economic Development  
Department of Insurance, Financial Institutions and Professional Registration  
Joint Committee on Administrative Rules  
Office of Administration  
    Budget and Planning  
Office of the Secretary of State

### **Not Responding:**

Missouri Department of Transportation



Ross Strobe  
Acting Director  
March 5, 2013